

NATIONAL DAIRY MARKET AT A GLANCE

CHICAGO MERCANTILE EXCHANGE (CME) CASH MARKETS (8/18)
BUTTER: Grade AA closed at \$1.2850. The weekly average for Grade AA is \$1.2885 (+.0075).

CHEESE: Barrels closed at \$1.2425 and blocks at \$1.2400. The weekly average for barrels is \$1.2185 (+.0525) and blocks, \$1.2225 (+.0295).

BUTTER: Butter markets across the country remain firm although prices have bounced higher and lower. Cream supplies for churning are quite limited. Often, ice cream operations are bidding up the price and churns are not able to compete in the short run. Churning activity is limited to the point that fresh butter needs are not being fully met thus inventoried stocks are being used. CME weekly butter stocks declined by 5.5 million pounds last week to stand at 140.6 million pounds compared to 86.8 million pounds for the same week last year. The two week decline for the past two weeks totals 11.7 million pounds and it is the largest reduction for a two week period since November 2005. Current butter demand is seasonally fair. Retail orders are steady, heavier when featured with food service orders somewhat improved as restaurants and food service outlets prepare for the upcoming Labor Day holiday weekend.

CHEESE: The cheese market is firm. Demand is steady to stronger as buyers assess recent price increases. Some retailers have prepared late summer/school reopening promotions. There are producers reducing orders or delaying deliveries of some current cheese varieties. Supplies of current cheese are appreciably tighter in the Midwest and East where production levels remain seasonally light. Few cheese makers are able to purchase additional milk volumes in the Central and East. While milk receipts have rebounded in the West, cheese yields remain seasonally low. NDM supplies to fortify milk and boost cheese yields are tight nationwide.

FLUID MILK: The volume of fluid shipments imported into Florida and the Southeast continues to increase to supplement local supplies. Finding trucks/truckers to haul loads into the Southeast and other areas is a growing problem. Class I demand continues to increase as more schools get set to resume operations. Milk intakes have partially rebounded in the Northeast and Central regions. Manufacturing levels are steady to lighter due to the milk shipments. In California, milk receipts have returned to levels similar to those before the July heat, generally attributed to more cows freshening. Intakes are steady in New Mexico. Receipts have also rebounded in the Pacific Northwest as well as Utah and Idaho. Manufacturing schedules have increased accordingly.

DRY PRODUCTS: All dry product markets are firm with prices unchanged to mostly higher. Overall production generally continues at reduced levels. Production of NDM remains light in the East and Central though production has increased in the West. Supplies remain tight and several operations are behind on contracts and are rationing customers. Churning remains light, keeping dry buttermilk supplies tight. Some buyers are showing less interest at current higher prices. Supplies are light. Limited whey supplies and reduced production continue to support the market. According to FAS, U.S exports of whey during the first 6 months of 2006

total 246.0 million pounds, equivalent to 44% of the total estimated U.S. dry whey production during the same 6 month period. Supplies of WPC are available from some operations and not others. Lactose supplies remain short with some buyers cancelling loads, allowing producers to resell them at higher prices.

CCC: During the week of August 14 - 18, there was no activity under the dairy price support program.

FEDERAL MILK ORDER ADVANCE PRICES HIGHLIGHTS (DAIRY PROGRAMS): Under the Federal milk order pricing system, the base price for Class I milk for September 2006 is \$10.85, down 12 cents from August. This price is derived from the advanced Class III skim milk pricing factor of \$6.64 and the advanced butterfat pricing factor of \$1.2703 per pound. Class I differentials specific to each county are added to the base price to determine the Class I price. The Class II skim milk price for September is \$6.99 and the Class II nonfat solids price is \$0.7767 per pound. The following are the two-week product price averages: butter \$1.1736, nonfat dry milk \$0.8463, cheese \$1.1633, and dry whey \$0.2925.

JULY MILK PRODUCTION (NASS): Milk production in the 23 major States during July totaled 13.9 billion pounds, up 1.5% from July 2005. June revised production, at 14 billion pounds, was up 1.9% from June 2005. The June revision represented an increase of 6 million pounds from last month's preliminary production estimate. Production per cow in the 23 major States averaged 1,686 pounds for July, 3 pounds (0.2%) above July 2005. The number of cows on farms in the 23 major States was 8.26 million head, 107,000 head (1.3%) more than July 2005, but 11,000 head less than June 2006.

FEDERAL MILK ORDER PRICE AND POOL SUMMARY (DAIRY PROGRAMS): HIGHLIGHTS. During July, about 10.4 billion pounds of milk were received from producers. This volume of milk is 2.9% higher than the July 2005 volume. About 3.5 billion pounds of producer milk were used in Class I products, 1.5% higher than the previous year. Calendar composition likely had a slightly negative impact on milk used in Class I in 2006 as compared to 2005. The all-market average Class utilization were; Class I = 34%, Class II = 13%, Class III = 42%, and Class IV = 11%. The weighted average statistical uniform price was \$12.07, \$0.01 lower than last month and \$3.19 lower than last year.

AUGUST MILK SUPPLY AND DEMAND ESTIMATES (WASDE): The milk production forecast for 2006 is reduced from last month, but the 2007 forecast is unchanged. Recent unusually high temperatures in many milk producing regions have resulted in lower milk yield, and forecast milk per cow is reduced in the third quarter. In the face of lower supplies and relatively robust demand for dairy products, forecast Class III and Class IV prices, and the all milk price are increased. Higher forecast prices for nonfat dry milk (NDM) are expected to reduce incentives to offer NDM to the CCC. Thus, CCC net removals are reduced for both 2006 and 2007. The all milk price for 2006 is increased to \$12.60 - \$12.80, and 2007 is raised to \$12.90 - \$13.90.

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**CHICAGO MERCANTILE EXCHANGE
CASH TRADING**

PRODUCT	MONDAY AUGUST 14	TUESDAY AUGUST 15	WEDNESDAY AUGUST 16	THURSDAY AUGUST 17	FRIDAY AUGUST 18	WEEKLY CHANGE*	WEEKLY AVERAGE#
CHEESE							
BARRELS	\$1.1950 (+.0025)	\$1.2050 (+.0100)	\$1.2100 (+.0050)	\$1.2400 (+.0300)	\$1.2425 (+.0025)	(+.0500)	\$1.2185 (+.0525)
40# BLOCKS	\$1.2100 (+.0100)	\$1.2100 (N.C.)	\$1.2125 (+.0025)	\$1.2400 (+.0275)	\$1.2400 (N.C.)	(+.0400)	\$1.2225 (+.0295)
BUTTER							
GRADE AA	\$1.2900 (N.C.)	\$1.2900 (N.C.)	\$1.2825 (-.0075)	\$1.2950 (+.0125)	\$1.2850 (-.0100)	(-.0050)	\$1.2885 (+.0075)

CHEESE: carload = 40,000-44,000 lbs., BUTTER: carlot = 40,000-43,000 lbs. *Sum of daily changes. # Weekly averages are simple averages of the daily closing prices for the calendar week. Computed by Dairy Market News for informational purposes. This data is available on the Internet at WWW.AMS.USDA.GOV/MARKETNEWS.HTM **NOTE: CME NDM on Page 2.**

CHICAGO MERCANTILE EXCHANGE

MONDAY, AUGUST 14, 2006

CHEESE — SALES: 2 CARS BARRELS: 1 @ \$1.2050, 1 @ \$1.1950; 3 CARS 40# BLOCKS: 1 @ \$1.2150, 2 @ \$1.2100; BIDS UNFILLED: 2 CARS BARRELS @ \$1.1600; OFFERS UNCOVERED: NONE

BUTTER — SALES: 3 CARS GRADE AA: 1 @ \$1.2950, 1 @ \$1.2925, 1 @ \$1.2900; BIDS UNFILLED: NONE; OFFERS UNCOVERED: 4 CARS GRADE AA: 1 @ \$1.2900, 2 @ \$1.3000, 1 @ \$1.3100

TUESDAY, AUGUST 15, 2006

CHEESE — SALES: 1 CAR 40# BLOCKS @ \$1.2100; BIDS UNFILLED: 3 CARS BARRELS: 1 @ \$1.2050, 1 @ \$1.2000, 1 @ \$1.1950; OFFERS UNCOVERED: NONE

BUTTER — SALES: 21 CARS GRADE AA: 4 @ \$1.2900, 2 @ \$1.2950, 8 @ \$1.3000, 1 @ \$1.2925, 1 @ \$1.2900, 1 @ \$1.2950, 1 @ \$1.2900, 1 @ \$1.2925, 2 @ \$1.2900; BIDS UNFILLED: 1 CAR GRADE AA @ \$1.2900; OFFERS UNCOVERED: 2 CARS GRADE AA: 1 @ \$1.2950, 1 @ \$1.3050

WEDNESDAY, AUGUST 16, 2006

CHEESE — SALES: 2 CARS BARRELS: 1 @ \$1.2050, 1 @ \$1.2075; 3 CARS 40# BLOCKS: 2 @ \$1.2100, 1 @ \$1.2125; BIDS UNFILLED: 2 CARS BARRELS: 1 @ \$1.2100, 1 @ \$1.2075; 1 CAR 40# BLOCKS @ \$1.2125; OFFERS UNCOVERED: 2 CARS 40# BLOCKS @ \$1.2200

BUTTER — SALES: 7 CARS GRADE AA: 2 @ \$1.2850, 1 @ \$1.2800, 1 @ \$1.2725, 2 @ \$1.2800, 1 @ \$1.2825; BIDS UNFILLED: NONE; OFFERS UNCOVERED: 11 CARS GRADE AA: 2 @ \$1.2850, 2 @ \$1.2875, 3 @ \$1.2900, 1 @ \$1.2950, 3 @ \$1.3000

THURSDAY, AUGUST 17, 2006

CHEESE — SALES: 5 CARS 40# BLOCKS: 1 @ \$1.2200, 1 @ \$1.2300, 2 @ \$1.2350, 1 @ \$1.2400; BIDS UNFILLED: 2 CARS BARRELS: 1 @ \$1.2400, 1 @ \$1.2150; OFFERS UNCOVERED: 1 CAR 40# BLOCKS @ \$1.2500

BUTTER — SALES: 10 CARS GRADE AA: 4 @ \$1.2825, 3 @ \$1.2850, 1 @ \$1.2900, 2 @ \$1.2950; BIDS UNFILLED: 5 CARS GRADE AA: 2 @ \$1.2925, 1 @ \$1.2900, 2 @ \$1.2800; OFFERS UNCOVERED: 3 CARS GRADE AA: 2 @ \$1.2975, 1 @ \$1.3000

FRIDAY, AUGUST 18, 2006

CHEESE — SALES: 7 CARS BARRELS: 2 @ \$1.2400, 2 @ \$1.2375, 1 @ \$1.2275, 1 @ \$1.2250, 1 @ \$1.2400; 6 CARS 40# BLOCKS: 1 @ \$1.2400, 1 @ \$1.2200, 1 @ \$1.2225, 1 @ \$1.2300, 1 @ \$1.2375, 1 @ \$1.2400; BIDS UNFILLED: 2 CARS BARRELS: 1 @ \$1.2425, 1 @ \$1.2300; OFFERS UNCOVERED: 3 CARS 40# BLOCKS: 1 @ \$1.2400, 2 @ \$1.2500

BUTTER — SALES: 2 CARS GRADE AA @ \$1.2850; BIDS UNFILLED: NONE; OFFERS UNCOVERED: 3 CARS GRADE AA: 1 @ \$1.2900, 2 @ \$1.3000

CME CASH NONFAT DRY MILK: Extra Grade closed the week at \$0.9000 and Grade A at \$0.9000. (The last price change for Extra Grade and Grade A was on August 9, 2006.) The weekly average for Extra Grade is \$0.9000 (+.0120) and Grade A is \$0.9000 (+.0120).

BUTTER MARKETS

NORTHEAST

Butter markets are firm. The CME cash butter price remains firm at \$1.2900. Many butter producers and handlers did not project the cash price to get this high even during the upcoming fall months. The recent strength in the butter price is being attributed to the decline in milk volumes and the lack of cream. Cream traders are having a very difficult time in securing cream volumes. For the most part, current cream prices are too high for churning needs, thus most butter producers are only using cream volumes that are generated from within their own operations. In instances, some butter producers are deciding to halt churning activity temporarily and selling their cream to very interested Class II buyers. Currently, Class II cream pricing multiples in the 170's times the CME weekly cash butter average are being reported. This leaves very little room for Class IV buyers to negotiate for the limited cream supply. Churning activity is limited to the point that fresh butter supplies are tight. Although fresh butter is in short supply, frozen and microfixed butter is available to fill orders. Butter inventories are fully sufficient to meet current and future needs, although package requirements might not immediately be available. Sales of bulk butter f.o.b. East, are reported in a range from flat market to 3.0 cents over the CME price/average.

CENTRAL

The butter market remains firm, although the cash price declined slightly at mid week to \$1.2825. Cream supplies are very tight for churning purposes. Often, producers are limited to volumes of cream generated from within their own organizations or are the sole end user of outside cream supplies. Some butter producers that were selling their cream to Class II operations in recent weeks are often holding onto the cream to generate fresh butter. When possible, unsalted

butter continues to be generated while inventoried stock is used for salted needs. Butter demand is seasonally fair. Retail orders are steady, occasionally heavier especially if featured. Food service orders are somewhat heavier as restaurants and food service outlets prepare for the upcoming Labor Day holiday weekend and the unofficial close of the summer vacation season. Bulk butter for spot sale is being reported in the flat – 2 cents per pound over various pricing basis.

WEST

Cash butter prices at the CME started last week at \$1.29, fell off from that level at the middle of the week, moved back up to \$1.29 at the end of the week, and moved lower to stand at \$1.2825 on Wednesday of this week. Trading has been relatively heavy on the exchange with sales occurring on both bids and offers. Some of the activity is related to the very high current cream prices. Some churning operations are selling the very high priced cream and either taking butter out of storage or going out in the market or on the exchange to find replacement butter. Fresh butter and cream are tight in the short run, but there are still good stocks of butter in the market place. Ice cream operations are bidding up the price and churns are not able to compete in the short run. CME weekly butter stocks declined by 5.5 million pounds last week to stand at 140.6 million pounds compared to 86.8 million pounds for the same week last year. The two week decline for the past two weeks totals 11.7 million pounds and it is the largest reduction for a two week period since November of last year. Butter sales activity is fair. Food service orders from seasonal vacation areas are slowing as the Labor Day weekend approaches. Retail sales are fair to good with limited feature activity noted. Prices for bulk butter range from flat market to 3 cents under based on the CME with various time frames and averages.

NASS DAIRY PRODUCT PRICES

U.S. AVERAGES AND TOTAL POUNDS

WEEK ENDING	CHEESE		NDM	BUTTER	DRY WHEY
	40# BLOCKS	38% MOISTURE BARRELS			
AUGUST 12	1.1622	1.1492	0.8475	1.2146	0.2974
	10,658,034	10,003,049	12,905,307	3,332,160	11,852,573

Further data and revisions may be found on the internet at: <http://jan.mannlib.cornell.edu/reports/nassr/price/dairy>

CHEESE MARKETS

NORTHEAST

Wholesale prices are higher on process and lower on cheddar and muenster. Food service orders into summer resort areas will start slowing soon as Labor Day weekend nears. Buyers are adjusting the product mix for the reopening of schools in a few weeks. Current offerings are lower as recent heat reduced milk receipts. Increased fluid sales into the Southeast are also reducing manufacturing milk supplies in the area. Tight NDM supplies are limiting milk fortifying to improve cheese yields.

WHOLESALE SELLING PRICES: DELIVERED,
DOLLARS PER POUND (1000 - 5000 POUNDS MIXED LOTS)

Cheddar 10# Prints	:	1.2775-1.7975
Cheddar Single Daisies	:	1.2350-1.7200
Cheddar 40# Block	:	1.3325-1.6075
Process 5# Loaf	:	1.3750-1.6150
Process 5# Sliced	:	1.3900-1.7000
Muenster	:	1.3500-1.5500
Grade A Swiss Cuts 10 - 14#	:	2.4500-2.6500

MIDWEST

The cheese market is firming. Some buyers are starting to realize that cheese prices could rise or deliveries be reduced, depending on the milk supply as schools reopen. The overall dynamics of the market have changed with the influx of more American type cheese from the West and Southwest offset by more fluid shipments from the upper Midwest toward the Southeast. Current cheese offerings continue to tighten. Some producers have reduced or delayed deliveries on items such as muenster, provolone, and mozzarella because of lower production. Process orders have improved, especially where promoted for late summer events. Process interest typically slows when more schools reopen. Some attractive natural chunk promotions are also moving product for selected retailers. Aged cheddar demand remains about steady seasonally. Barrels and undergrade supplies are tight for the short term. Milk supplies are very tight in the region and yields are seasonally low. Some producers are trying to use more condensed skim as an alternative for the very tight NDM supplies, though condensed supplies are also limited. Milk shipments from the upper part of the region to central and southeastern fluid markets are reducing production schedules.

WISCONSIN WHOLESALE SELLING PRICES: DELIVERED,
DOLLARS PER POUND (1000 - 5000 POUNDS MIXED LOTS)

Process American 5# Loaf	:	1.4350-1.6800
Brick And/Or Muenster 5#	:	1.7000-1.7500
Cheddar 40# Block	:	1.5525-2.2650
Monterey Jack 10#	:	1.7000-2.2650
Blue 5#	:	2.0525-2.3800
Mozzarella 5 - 6# (Low Moisture, Part Skim)	:	1.3800-2.3650
Grade A Swiss Cuts 6 - 9#	:	2.1550-2.8300

WEEKLY COLD STORAGE HOLDINGS-SELECTED STORAGE CENTERS
IN THOUSAND POUNDS - INCLUDING GOVERNMENT STOCKS

BUTTER : CHEESE

	:	
08/14/06	50,351	: 139,103
08/01/06	53,908	: 137,815
CHANGE	-3,557	: 1,288
% CHANGE	-7	: 1

WEST

Cash prices for block cheese at the CME continue to move both higher and lower in the short run. Block prices were above \$1.20 on June 15 and then declined. They hit \$1.20 again on July 31 and fell back again only to increase to that level again on August 11. Prices at midweek are \$1.2125. The recent price gyrations seem to be weather related. The heat of a few weeks ago brought down milk supplies and the solids content of the milk, reducing cheese yields. Many cheese plants are looking for additional supplies of milk and for condensed skim or NDM to fortify the vat without much success. Milk supplies have rebounded rather well, but the solids content has not come back quite as well. NDM supplies are tightening up rapidly and some buyers are being put on an allocation basis. Current block cheese is available in the West for normal buyer needs. Barrels are balanced with good quality undergrade cheese clearing well also. Western plants are satisfied with current Swiss sales activity. Mozzarella interest is beginning to increase as schools begin their fall terms, but stocks of frozen mozzarella are on the heavy side. According to FAS, exports of all cheese for the first six months of the year total 21.2 million pounds, up 11.9% from the same period last year. The top four country destinations are Japan at 5.9 million pounds; Mexico, 4.8 million pounds; Korea, 2.7 million pounds; and Canada, 1.6 million pounds. These four countries account for 71% of the export total for the six month period.

WHOLESALE SELLING PRICES: DELIVERED, DOLLARS PER POUND
(1000 - 5000 POUNDS MIXED LOTS)

Process 5# Loaf	:	1.3175-1.5750
Cheddar 40# Block	:	1.3150-1.6675
Cheddar 10# Cuts	:	1.4950-1.7150
Monterey Jack 10#	:	1.5050-1.6650
Grade A Swiss Cuts 6 - 9#	:	2.3500-2.7000

FOREIGN

Prices are fractionally lower on domestic and unchanged on imported. Supplies are adequate. Continued increases in transportation cost may lead to additional increases on both domestic and imported varieties. Demand is generally steady.

WHOLESALE SELLING PRICES: FOB DISTRIBUTORS DOCK
DOLLARS PER POUND (1000 - 5000 POUNDS, MIXED LOTS)

NEW YORK		
VARIETY	IMPORTED	DOMESTIC
Roquefort	: TFEWR	: -0-
Blue	: 2.6400-4.4800	: 1.5975-3.0850*
Gorgonzola	: 3.6900-5.9900	: 2.1000-2.4900*
Parmesan (Italy)	: TFEWR	: 3.0050-3.1100*
Romano (Italy)	: 2.1000-3.2900	: -0-
Provolone (Italy)	: 3.4400-6.0900	: 1.5900-1.8275*
Romano (Cows Milk)	: -0-	: 2.7875-4.9300*
Sardo Romano (Argentina)	: 2.8500-3.2900	: -0-
Reggianito (Argentina)	: 2.6900-3.2900	: -0-
Jarlsberg-(Brand)	: 3.1200-4.1500	: -0-
Swiss Cuts Switzerland	: -0-	: 2.4500-2.6500
Swiss Cuts Finnish	: 2.5900-2.8500	: -0-
Swiss Cuts Austrian	: TFEWR	: -0-
Edam	:	:
2 Pound	: TFEWR	: -0-
4 Pound	: TFEWR	: -0-
Gouda, Large	: TFEWR	: -0-
Gouda, Baby (\$/Dozen)	:	:
10 Ounce	: 27.8000-31.7000	: -0-

* = Price change.

FLUID MILK AND CREAM

E A S T

Spot shipments of Grade A milk into or out of Florida and other Southeastern states

	THIS WEEK		LAST WEEK		LAST YEAR	
	IN	OUT	IN	OUT	IN	OUT
FLORIDA	238	0	228	0	113	0
SOUTHEAST STATES	126	0	112	0	91	0

Milk supplies from the Northeast into the Southeast remain tight. Milk production trends have stabilized from recent declines, but recovery is mixed. Some milk handlers indicate that they are seeing some recovery while others are stating that recovery has not been realized yet. Some feel that recovery may not occur at all, thus they will need to work with lower than anticipated milk volumes for the future. Competition for available milk is occurring from all classes of milk. Many milk handlers continue to indicate that it will be quite some time before supply/demand will become balanced. Class I demand is strong as school bottling pipelines continue to fill, especially in the Southeast. This pattern will continue for another four weeks or so as additional school systems resume classes. Class II demand is strong, with Class III and IV buyers unable to secure desired volumes due to lack of supply and price. Imports of milk into the Southeast continue to increase from previous week levels. This week, 238 loads of milk entered Florida compared to 228 last week and 113 last year. Milk in the Southeast (outside of Florida) is also tight and 126 loads were imported during the week compared 112 last week and 91 a year ago. Milk handlers in the region anticipate that they will be importing heavily for quite some time. Lack of trucks to haul the milk is an issue this week and is projected to remain so for the near future. Milk handlers state that lack of trucks is not specific to one area of the country, but is common all over the country. Condensed skim markets are firm as demand is strong. Reports of condensed moving greater distances are occurring to help alleviate milk shortages. Cream markets are firm and supplies are very limited. Traders state that cream availability is limited due to a continued strong Class II demand and lower butterfat levels in milk. The heat of recent weeks greatly reduced butterfat levels in the milk and no significant recovery is occurring. Often, butter producers have reduced their production schedules to hours in a week versus days in a week. One butter producer in the Northeast is down for maintenance this week versus compete for limited cream volumes or run at greatly reduced schedules.

FLUID CREAM AND CONDENSED SKIM PRICES IN TANKLOT QUANTITIES

SPOT PRICES OF CLASS II CREAM, \$ PER LB BUTTERFAT

F.O.B. PRODUCING PLANTS: NORTHEAST	-	2.1136-2.2418
DELIVERED EQUIVALENT: ATLANTA	-	2.1777-2.3058 M 2.2289-2.2674
F.O.B. PRODUCING PLANTS: UPPER MIDWEST	-	1.7934-2.1393

PRICES OF CONDENSED SKIM, DOLLARS PER LB. SOLIDS,

F.O.B. PRODUCING PLANTS:

NORTHEAST - CLASS II - INCLUDES MONTHLY FORMULA PRICES	- .8975-.9700
NORTHEAST - CLASS III - SPOT PRICES	- .8900-.9500

M I D W E S T

Milk production continues to recover from the recent bout of heat and humidity a couple of weeks ago. Fat and protein tests seem to be just slightly improved from recent depressed levels at a few locations. Overall, milk intakes are still below those just prior to the late July - early August heat. Daily low temperatures in the upper 50s in upper tier states have aided in the recovery. Milk supplies remain tight with not enough prices reported to put together a spot price range. Manufacturing schedules remain at lighter summer levels. Manufacturing milk demand exceeds offerings. Class I sales remain at sluggish summer levels with the usual retail features in selected markets. Some bottlers expect to gear up late next week or the following week to build inventory for the reopening of schools after Labor Day in most upper tier states. Bottlers in areas with schools already open or soon to open are busier. Milk shipments, either direct or stair-stepped toward the Southeast from the region, are relatively steady. The shipments have greatly reduced the pool of trucks/truckers available for other shipments, particularly for longer distance hauls. Cream is tight though some users feel demand may have eased a bit. Cream cheese production is picking up as ice cream output continues to ease back for some producers. Crop conditions vary by

location with some areas expecting poor yields and others very good, depending on precipitation. Parts of the corn crop may be a little ahead in maturity, leading to earlier silage chopping.

WISCONSIN LIVESTOCK AUCTIONS (PER CWT.)

	AUGUST 10 - 16	PREVIOUS YEAR
SLAUGHTER COWS	\$ 47.00- 53.00	\$ 50.00- 56.00
REPLACEMENT HEIFER CALVES	\$300.00-590.00	\$350.00-760.00

SOUTH ST. PAUL TERMINAL AUCTION MARKET (PER CWT.)

	AUGUST 10 - 16	PREVIOUS YEAR
SLAUGHTER COWS	\$ 44.00- 54.00	\$ 49.00- 58.00

W E S T

The September 2006 Class 1 prices in CALIFORNIA range from \$12.62 in the north to \$12.89 in the south. The statewide average Class 1 price based on production is \$12.65. The average is 59 cents higher than August 2006 but \$2.62 lower than September 2005. Milk production continues to trend higher across most of CALIFORNIA. Several handlers report that current intakes are at the level reached before the heat spell in July. The extent of the rebound is surprising to some, but one factor is that there are more cows than a year ago in the state. This is in spite of increased mortality during the hot conditions. Currently, death losses have returned to normal levels and lower. The influence of mild, seasonal temperatures has allowed for greater cow comfort, better feeding patterns, improved breeding conditions, and limited stress. There have been several plants reporting problems this week, causing handlers to push milk onto the spot market at in plant delivered pricing. There are some plants down for scheduled maintenance, whereas others are having unforeseen problems. Fluid orders are lower this week. Both school pipelines and retail movement seem to have been overcommitted. Buyers are backing off on this week's orders of milk. ARIZONA milk output is moving up and down on a daily basis. This is most often related to weather conditions that have returned to more seasonal levels. More cows are being dried up in the state. Rains have been limited in the milk producing areas and have not been a limiting factor in the milk flow. Bottlers in the state are taking more milk to help with new school orders. Additionally, retail features are common and expected to increase sales over the next two weeks. Milk production levels in NEW MEXICO have been mainly steady in recent weeks. Recovery from summer temperatures has been slower than expected. Total production is higher than year ago levels, mainly due to more cows on dairies in the state. Rains have been common and heavy over several areas of the state and anecdotal reports claim the rains are reducing production. Milk shipments to the fluid market in the Southeast are currently limited to contract loads. CREAM markets are tight in the West. Prices, multiples and basing points are higher than last week. There are sellers that are seeking higher multiples to offset their cream losses realized earlier in the year. Cream demand is good from ice cream, cream cheese, sour cream, and other higher class item producers. The butter price at the CME is trending higher on a week to week basis, although daily prices are fluctuating. The Grade AA butter price was 1.5 cents higher than last week to \$1.2825 on Wednesday, August 16. Cream multiples increased and range from 120 to 150, FOB, and vary depending on class usage and basing points. Most trades are between 125 and 135, FOB. Milk production has rebounded from the heat reduced levels of a few weeks ago in the PACIFIC NORTHWEST. The stress in this region was not nearly as bad as in many other parts of the Western region. Tests on the milk receipts are also reported as normal for this time of year. Interest in cream from other parts of the country is being called excellent with prices very firm. Churns are often being shorted as more cream leaves the region. Plants in the Northwest are probably operating on the most normal schedules of any area of the country. The corn crop looks good for the upcoming silage harvest season. Hay offerings continue to be only of marginal quality for dairy herds. Many producers are planning to search for good quality dairy hay from the third and fourth cuttings. The competition for this hay is likely to be intense from domestic buyers and exporters. Conditions are excellent for milk production in UTAH and IDAHO. Warm days are followed by cool nights with little humidity noted. Tests on milk receipts were taken down by the heat of a few weeks ago. They have now recovered for the most part. Hay supplies and quality are probably the best in this portion of the Western region. Producers don't expect milk output to be impacted by the hay market this winter. Heifer prices in the region have come off about another \$100 in the region with only light interest noted.

NDM, BUTTERMILK & WHOLE MILK

Prices represent carlot/trucklot quantities for domestic and export sales packaged in 25 kg. or 50 lb. bags, or totes, spray process, dollars per pound.

NONFAT DRY MILK - CENTRAL AND EAST

CENTRAL: Prices are higher on a firm market. Production is reduced as more milk filters into Class I facilities in preparation for the resumption of school schedules. Most plants cannot satisfy spot load interest, encouraging buyers to seek alternative supplies in the resale market, especially in light of limited manufacturer supplies in the coastal areas. Some brokers that had stored a few loads of NDM were able to resell their stocks at prices over \$1. Most movement is occurring on a contractual basis for both low heat and high heat NDM. Requests are noted to the CCC for the release of government held NDM.

EAST: Prices are higher on a firm market. Supplies are the tightest in the East due to reduced milk supplies after the recent heat wave and the heavy shift of milk to Class I in the Southeast. Production schedules are significantly reduced, allowing plants time to examine maintenance and repair. Buyers are noting that they are getting shorted on their contractual loads. A few spot loads are available direct from the manufacturer and trading at the high side of the range. Requests are noted to the CCC for the release of government held NDM.

F.O.B. CENTRAL/EAST: Includes EXTRA GRADE and GRADE A
 LOW/MEDIUMHEAT: .8600 - 1.1250 MOSTLY: .9200 - .9600
 HIGHHEAT: .8950 - 1.0300

NONFAT DRY MILK - WEST

Prices have escalated very rapidly for low/medium heat NDM in the West. The high end of the range moved sharply higher to reflect a spot sale. The market tone is firm. Availability remains tight across the region. Producers' offerings are very light with several behind and rationing contract customers. This, in turn, is causing more pressure on those customers to search the resale market for powder. That is causing higher resale prices, which are another step above spot pricing. Both domestic and export accounts are under allocations. Increased volumes of milk are returning to butter/powder plants in the region as milk production increases due to improved weather conditions. Stocks remain light and are being tightly held. High heat prices increased, but the trading is untested. With the run up in the low heat prices, some producers' high heat offering prices would be below their low heat prices. The limited offerings have been withheld from the spot market. From January to June 2006, the FAS reports U.S. exports of NDM/SMP total 145,040 MT (319.8 million pounds) compared to 167,081 MT (368.3 million pounds) during the same period in 2005, a decline of 13.2%. During June 2006, exports totaled 28,416 MT (62.6 million pounds). Top countries for exports during the first half of 2006 were: Mexico, 34,630 MT; Indonesia, 15,197 MT; Philippines, 14,310 MT; Malaysia, 9,844.2 MT; and Algeria, 8,395 MT.

F.O.B. WEST: Includes EXTRA GRADE and GRADE A
 LOW/MEDIUMHEAT: .8100 - 1.0500 MOSTLY: .8450 - .9000
 HIGHHEAT: .8500 - .9200

CALIFORNIA MANUFACTURING PLANTS - NDM

WEEK ENDING	PRICE	TOTAL SALES	SALES TO CCC
August 11	\$.8371	6,345,531	0
August 4	\$.8339	10,277,267	0

Prices are weighted averages for Extra Grade and Grade A Nonfat Dry Milk, f.o.b. California manufacturing plants. Prices for both periods were influenced by effects of long-term contract sales. Total sales (pounds) include sales to CCC. Compiled by Dairy Marketing Branch, California Department of Food and Agriculture.

DRY BUTTERMILK - CENTRAL

Prices are higher on a firm market. Spot interest in buttermilk at the current prices is somewhat reduced. However, some buyers are willing to pay premiums in order to obtain supplies from specific manufacturers. Producer stocks are generally held with confidence as production levels seasonally dwindle.

F.O.B. CENTRAL: .9675 - 1.0100

DRY BUTTERMILK - NORTHEAST AND SOUTHEAST

Prices are unchanged to higher and nominal on a firm market. Churn activity is very light as milk shifts away from Class IV facilities and into bottling plants in order to replenish pipelines for school sessions. As a result, buttermilk production is light. Trade is generally contractual with limited spot availability.

F.O.B. NORTHEAST: .8450 - .8850
 DELVD SOUTHEAST: .8650 - .9050

DRY BUTTERMILK - WEST

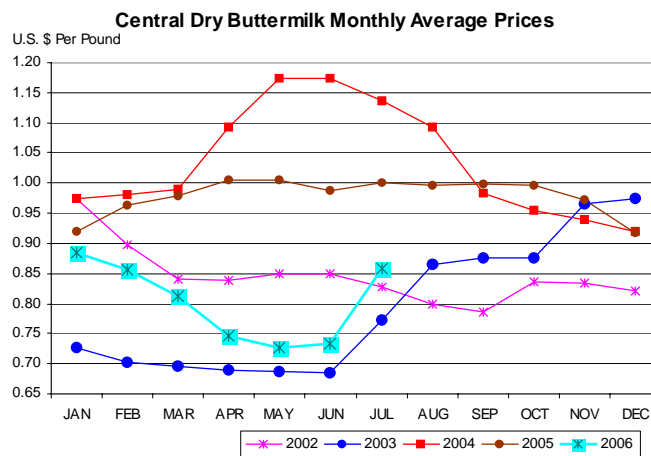
Dry buttermilk prices moved higher for both the range and mostly series in the West. The market tone is firm. The supply side remains tight as butter production recovers in the region. Suppliers are trying to catch up on orders from past weeks. Stocks are light.

F.O.B. WEST: .7500 - .8700 MOSTLY: .7800 - .8300

DRY WHOLE MILK - NATIONAL

Prices moved higher for dry whole milk. Higher prices for butter and fat have increased the value in whole milk. Demand is light and matched the limited producer offerings. The spot market is only lightly tested. Production has been limited over the past month and reflected the lower milk supplies.

F.O.B. PRODUCING PLANT: 1.2000 - 1.3000



WHEY, CASEIN & EVAPORATED MILK

Prices represent carlot/trucklot quantities for domestic and export sales packaged in 25 kg. or 50 lb. bags, or totes, spray process, dollars per pound.

DRY WHEY - CENTRAL

Prices are higher on a firm market. Most trade continues to occur on contracts. Spot trade is very light due in part to limited supply availability. Buyer interest is mixed. Some buyers are willing to pay premiums of 3-4 cents in the resale market to obtain loads whereas others are comfortable in receiving contractual loads or operating off of current inventories. A few loads of feed grade whey were available during the week for the good domestic and export interest. Supplies of dry permeate are generally not available as a substitute to dry whey. Condensed whey supplies are significantly reduced compared to the month prior.

F.O.B. CENTRAL: .3050 - .3250 MOSTLY: .3050 - .3150
F.O.B. CENTRAL: ANIMAL FEED MILK REPLACER: .2850 - .3150

DRY WHEY - NORTHEAST AND SOUTHEAST

Prices are unchanged to higher on a firm market. The loss of production, from reduced milk intakes during the heat wave and in response to increased shifts of milk to Class I, is affecting some contractual orders. Some manufacturers canceled orders in an attempt to better ration stocks. Increased interest in the resale market is noted where supplies are also limited. Sales direct from the manufacturer are light. Producers indicate that supplies of whey will not significantly increase in the region until either late September at some locations or sometime after the New Year at other locations.

F.O.B. NORTHEAST: EXTRA GRADE AND GRADE A: .3075 - .3200
DELVD SOUTHEAST: .3275 - .3400

DRY WHEY - WEST

Prices continue to increase for Western dry whey as they are across the country. There continues to be a firm undertone to the market. Both domestic and export sales are taking place with good levels of interest noted. Stocks at the producer level are generally in close balance and declining. Production has rebounded somewhat from the reduced levels of a few weeks ago. According to FAS, whey exports for the first six months of the year total 246.0 million pounds, up 9.4% from the same period in 2005. The top five destination countries and their totals are as follows: China, 61.6 million pounds; Korea, 27.4 million pounds; Canada, 27.3 million pounds; Japan, 26.2 million pounds; and Thailand, 19.1 million pounds. These five countries accounted for 66% of the exports. The total exports accounted for 44% of total dry whey production for the six month period.

NONHYGROSCOPIC: .2725 - .3300 MOSTLY: .3000 - .3125

EVAPORATED MILK - NATIONAL

Prices are unchanged on a steady market. On August 10, the Kansas City Commodity office announced the Evaporated Milk Products Solicitation EVD2-020, inviting competitive offers to sell to CCC 771,120 pounds of evaporated milk for delivery October - December 2006. Offers are due by 9:00 a.m. CDT, August 22, 2006.

DOLLARS PER 48 - 12 FLUID OUNCE CANS PER CASE DELIVERED MAJOR U.S. CITIES \$21.20 - 36.00

Excluding promotional and other sales allowances. Included new price announcements.

WHEY PROTEIN CONCENTRATE - CENTRAL AND WEST

Prices are higher on a steady to firm market. Supplies are mixed. Although some locations have loads readily available, others are well-contracted and cannot offer loads on a spot basis. Mechanical problems and reduced milk intakes are reducing overall production at some locations. Canadian supplies of WPC 34% continue to move into the U.S. at competitive prices. WPC 80% demand is increasing, deterring the availability of WPC 34% as a substitute to WPC 34%. Some feed users are displacing WPC 34% with the recent sellback of NDM. Offers of condensed WPC are reduced. During the first half of 2006, WPC 34% and 80% exports respectively increased 65.9% and 25.5% compared to the same period in 2005. Export quantities and percentage changes for the dominant 34% WPC markets include: Mexico 29,306,588 lbs (+96.9% or 10.5% more than the total quantity shipped in 2005), Canada 6,597,454 lbs (+54.4%), China 5,351,532 lbs (+54.7%), Japan 4,683,720 lbs (+68.9%), and Republic of Korea 3,209,685 lbs (+126.9%). Export quantities and percentage changes for the dominant 80% WPC markets include: Canada 2,964,600 lbs (+5.5%), Mexico 1,904,256 lbs (-18.4%), China 1,496,957 lbs (+122.0% or 8.2% more than the total quantity shipped in 2005), Thailand 806,444 lbs (+3559.0% or more than twice the total quantity shipped during 2005), and Japan 793,220 (-6.8%).

F.O.B. EXTRA GRADE 34% PROTEIN: .6000 - .6600 MOSTLY: .6000 - .6200

LACTOSE - CENTRAL AND WEST

Prices are unchanged to higher on a firm market. Supplies of lactose remain short of buyer interest, encouraging buyer bids near the high end of the range. Some buyers are canceling their loads and producers are readily reselling loads at higher prices. Some candy and confectionary users are able to garner a few additional loads from suppliers at contractual prices as preparations continue for the holidays. Increased interest in dry whey, permeate and dextrose are noted in response to the limited supply availability of lactose. Some feed grade supplies are being offered within the mostly range. During the first half of the year, lactose exports increased 39.9% compared to the same period in 2005. Export quantities and percentage changes for the dominant markets include: Mexico 41,213,257 lbs (+248.7% or about 74.0% more than the total quantity shipped during 2005), Japan 22,903,086 lbs (-20.2%), Vietnam 8,990,557 lbs (+50.0%), and Thailand 7,197,382 lbs (+101.0% or 79.2% of the total quantity shipped during 2005). During January - June 2006, exports exceeding 2,500,000 lbs are also noted into Australia, Brazil, Canada, China, Malaysia, and the Philippines.

Including spot sales and up to 3 month contracts. Mesh size 30 - 100.

F.O.B. EDIBLE: .2775 - .4100 MOSTLY: .3100 - .3700

CASEIN - NATIONAL

Casein markets and prices remain steady. Domestic buyers continue to report that supplies are sufficient for their needs. Rennet demand is not overly aggressive and supplies are available. Acid demand is more active and is not as readily available as rennet, but most needs are being filled. Suppliers remain optimistic that they will be able to supply buyer needs as the fall approaches. Oceania suppliers continue to fill needs from inventoried stock and will resume new production soon. European sources state that the production season is basically over, thus future orders, until next spring, will be filled from inventoried stock.

SPOT SALES AND UP TO 3 MONTH CONTRACTS. PRICES ARE F.O.B., U.S. WAREHOUSE FOR EDIBLE NONRESTRICTED AND VARY ACCORDING TO MESH SIZE AND QUALITY.

RENNET: 3.0000 - 3.1000
ACID: 3.0500 - 3.1500

EVAPORATED MILK - NATIONAL - see adjacent column

CCC PURCHASES OF DAIRY PRODUCTS (POUNDS)

	FOR THE WEEK OF AUGUST 14 - 18, 2006			CUMULATIVE TOTALS		UNCOMMITTED INVENTORIES	
	TOTAL PURCHASES	CONTRACT ADJUSTMENTS	ADJUSTED PURCHASES	SINCE 10/01/05	SAME PERIOD LAST YEAR	WEEK ENDING 08/11/06	SAME PERIOD LAST YEAR
BUTTER							
Bulk	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Packaged	-0-	-0-	-0-	-0-	-0-	-0-	-0-
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-	-0-
CHEESE							
Block	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Barrel	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Process	-0-	-0-	-0-	198,000	-0-	-0-	-0-
TOTAL	-0-	-0-	-0-	198,000	-0-	-0-	-0-
NONFAT DRY MILK							
Nonfortified	-0-	-0-	-0-	63,991,990	31,817,269	-0-	-0-
Fortified	-0-	-0-	-0-	-0-	-0-	-0-	-0-
TOTAL	-0-	-0-	-0-	63,991,990	31,817,269	-0-	-0-

MILK EQUIVALENT, FAT SOLIDS BASIS, OF ADJUSTED PURCHASES (MILLION POUNDS)

	MILKFAT* BASIS	SKIM** SOLIDS		MILKFAT* BASIS	SKIM** SOLIDS
WEEK OF AUGUST 14 - 18, 2006 =	0.0	0.0	COMPARABLE PERIOD IN 2005 =	0.0	0.0
CUMULATIVE SINCE OCTOBER 1, 2005 =	15.9	746.8	CUMULATIVE SAME PERIOD LAST YEAR =	7.0	370.4
CUMULATIVE JAN. 1 - AUG. 18, 2006 =	15.9	746.8	COMPARABLE CALENDAR YEAR 2005 =	0.0	0.0

* Factors used for Fat Solids Basis - Butter times 21.80; Cheese times 9.23; and Nonfat Dry Milk times 0.22

**Factors used for Skim Solids Basis - Butter times 0.12; Cheese times 9.90; and Nonfat Dry Milk times 11.64

CCC ADJUSTED PURCHASES FOR THE WEEK OF AUGUST 14 - 18, 2006 (POUNDS)

REGION	BUTTER			CHEESE			NONFAT DRY MILK	
	BULK	PACKAGED	UNSALTED	BLOCK	BARREL	PROCESS	NONFORTIFIED	FORTIFIED
CENTRAL	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
WEST	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
EAST	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-

CCC ADJUSTED PURCHASES SINCE 10/1/05 AND SAME PERIOD LAST YEAR (POUNDS) AND MILK EQUIVALENT AS A PERCENT OF TOTAL

REGION	BUTTER		CHEESE		NONFAT DRY MILK		MILK EQUIVALENT (%)	
	2005/06	2004/05	2005/06	2004/05	2005/06	2004/05	2005/06	2004/05
CENTRAL	-0-	-0-	198,000	-0-	1,364,259	1,331,567	13.4	4.2
WEST	-0-	-0-	-0-	-0-	60,223,255	29,415,099	83.3	92.4
EAST	-0-	-0-	-0-	-0-	2,404,476	1,070,603	3.3	3.4
TOTAL	-0-	-0-	198,000	-0-	63,991,990	31,817,269	100.0	100.0

SUPPORT PURCHASE PRICES FOR DAIRY PRODUCTS PRODUCED ON OR AFTER NOVEMBER 15, 2002

MANUFACTURING MILK Average Test 3.67% - \$9.90 per cwt.

BUTTER Bulk \$1.0500 per pound; 1# Prints \$1.0850

CHEESE 40 & 60# Blocks \$1.1314 per pound; 500# Barrels \$1.1014; Process American 5# \$1.1889; Process Am. 2# \$1.2289

NONFAT DRY MILK Nonfortified \$.8000 per pound; Fortified \$.8100; Instant \$0.9625

U.S. Dairy & Total Cow Slaughter under Federal Inspection, by Regions, for Week Ending 07/29/06 & Comparable Week 2005

Regions* (000 HEAD)	1	2	3	4	5	6	7	8	9	10	U.S. TOTAL		% DAIRY OF ALL	
											WEEK	SINCE JAN 1	WEEK	SINCE JAN 1
2006-Dairy	N.A.	0.6	5.8	2.5	15.9	2.2	0.3	N.A.	13.3	1.6	43.2	1,311.9	43.2	44.3
2005-Dairy	N.A.	0.6	6.2	2.0	13.4	2.3	0.4	N.A.	12.0	1.5	39.4	1,306.8	49.1	47.1
2006-All cows	N.A.	0.6	7.2	12.6	27.9	18.3	12.4	N.A.	15.6	2.2	99.9	2,959.0		
2005-All cows	N.A.	0.6	7.3	9.3	23.8	13.0	8.2	N.A.	14.2	1.7	80.2	2,772.9		

SOURCE: The slaughter data are gathered and tabulated in a cooperative effort by the Agricultural Marketing Service, The Food Safety and Inspection Service, and the National Agricultural Statistics Service, all of USDA.

CLASS III MILK PRICES, (3.5% BF)

YEAR	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
2002	11.87	11.63	10.65	10.85	10.82	10.09	9.33	9.54	9.92	10.72	9.84	9.74
2003	9.78	9.66	9.11	9.41	9.71	9.75	11.78	13.80	14.30	14.39	13.47	11.87
2004	11.61	11.89	14.49	19.66	20.58	17.68	14.85	14.04	14.72	14.16	14.89	16.14
2005	14.14	14.70	14.08	14.61	13.77	13.92	14.35	13.60	14.30	14.35	13.35	13.37

FEDERAL MILK ORDER CLASS PRICES FOR 2006 (3.5% BF)

CLASS	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
I 1/	13.38	13.38	12.49	11.22	10.97	10.75	11.34	10.97	10.85			
II	13.25	12.62	11.69	11.37	11.13	11.00	10.83					
III	13.39	12.20	11.11	10.93	10.83	11.29	10.92					
IV	12.20	11.10	10.68	10.36	10.33	10.22	10.21					

1/ Specific order differentials to be added to this base price are located at www.ams.usda.gov/dyfm05/mib/cls_prod_cmp_pr.htm

INTERNATIONAL DAIRY MARKET NEWS

Information gathered August 7 - 18, 2006

Prices are U.S. \$/MT, F.O.B. port. Information gathered for this report is from trades, offers to sell, and secondary data. This bi-weekly report may not always contain the same products and/or regions. Future reports may be included or withdrawn depending on availability of information. MT = metric ton = 2,204.6 pounds.

WESTERN AND EASTERN EUROPE

WESTERN OVERVIEW: Temperatures have moderated and rainfall is occurring in most of Europe. These more favorable weather patterns, in comparison to the hot and dry conditions of a few weeks ago, are helping declining milk production to stabilize. Milk producers and handlers state that some recovery is occurring, but most feel that production losses will not recover fully. Current weather conditions are also favorable in that parched pasture conditions are recovering. Throughout most areas of Europe, cumulative milk production volumes are trailing last season. This has been the case for the season thus far and most milk handlers do not foresee much hope for production gains as the season winds down. Competition for milk volumes is strong as manufacturers generate product for basically an internal demand. Fluid (drinking) milk demand has been slow during the summer holiday period, but is expected to increase as this season comes to a close. International buyer interest is reported as slow as many traders and handlers indicate that supplies are not that readily available and often priced higher than buyers are willing to pay. Most sales at this time are centered around an internal or domestic market. Skim milk powder and whey prices are firm with most other prices holding steady. Intervention for butter remains open until August 31 for those countries still eligible, Spain, Portugal, Ireland, and Poland). Under the most recent tender, about 800 MT of butter were accepted into the program at around 2300 Euros (89% of the intervention level). There will be one more tender before intervention closes at the end of the month.

BUTTER/BUTTEROIL: European butter markets are generally steady at unchanged prices. Butter stocks are sufficient to maintain domestic and internal needs. Butter production is declining seasonally as milk and cream volumes edge lower. Butter intervention remains open for a few more weeks. Under the most recent tender, about 800 MT of butter were accepted into the program around 89% of the intervention price. There will be one more tender opportunity before the August 31 close.

82% BUTTERFAT: 1,700 - 1,925

99% BUTTERFAT: 2,200 - 2,300

SKIM MILK POWDER (SMP): Skim milk powder prices continue to increase as the market remains firm. Stocks of powder are sufficient for an internal market. At this point, traders and handlers state that the market is centered around internal sales versus international buyer interest. Production schedules are trending lower as milk volumes decline. Many traders and handlers question how long will the current price trend continue. For many, they do not foresee weakness for the near future.

1.25% BUTTERFAT: 2,560 - 2,750

WHOLE MILK POWDER (WMP): Whole milk powder markets are generally steady at unchanged prices. As with other manufactured dairy products, whole milk powder production is lower as milk output declines seasonally. Traders and handlers state that powder stocks are fully sufficient to maintain domestic shipments. Most sales are centered around this domestic demand with international sales reported as slow.

26% BUTTERFAT: 2,200 - 2,300

SWEET WHEY POWDER: European whey markets are firm. Prices have increased. Whey demand is centered around an internal or domestic edible market. Animal feed demand is equally strong with prices near \$950. International buyers are often hesitant to explore European sources due to firm prices. Cheese production is seasonally lower, thus are whey volumes.

NONHYGROSCOPIC: 900 - 1,000

EASTERN OVERVIEW: Milk production in Eastern Europe continues to decline and continues to trail last year's levels. The hot and humid weather conditions of a few weeks ago have eased and production declines have stabilized. Most milk handlers do not foresee much recovery in milk volumes lost during the recent hot spell. Manufacturing schedules are reflecting the decline in milk volumes. Often, manufacturers are not able to maintain desired product schedules due to lack of milk volumes. Although production is lower, most manufacturers indicate that they are comfortable with their supply situation. Most indicate that they do not have the inventory level of previous years.

Exchange rates for selected foreign currencies: August 14, 2006

.8878 Canadian Dollar	.0215 Indian Rupee
.3253 Argentina Peso	.6278 New Zealand Dollar
.0922 Mexican Peso	.7594 Australian Dollar
.3279 Polish Zloty	.0086 Japanese Yen
	1.2723 Euro

To compare the value of 1 US Dollar to Mexican Pesos: (1/.0922)=
10.8459 Mexican Pesos. Source: "Wall Street Journal"

OCEANIA

OCEANIA OVERVIEW: The new milk production season in Oceania is just beginning to resume. Output in New Zealand is showing more signs of increases versus Australian production. The New Zealand milk output season is typically a month or so ahead of production in Australia. New Zealand milk producers and handlers indicate that volumes are increasing, but state that it is still too early in the season to report comparables to last year. Winter weather conditions in New Zealand have been typical. Pasture growth is progressing fairly well. Moisture during the winter season has been favorable with rainfall and snow cover reported to be good, although temperatures are cooler than usual for this time of the season. In Australia, milk producers indicate that rainfall during the winter season was lighter than desired for July, but is improving in August. Shipments of inventoried product from the 2005 - 2006 year continue. Carry over volumes are reported to be adequate for the next month or so, until new product is available and new commitments are filled. Some Oceania traders and handlers are wondering what impact unshipped New Zealand butter stocks, earmarked for clearance to Europe, might have on Oceania prices. Since the total suspension, The European Commission has made concessions to the initial suspension to allow butter with existing certificates and/or already in transit to enter the EU under regulations prior to the July 12 date. Subsequent shipments of butter volumes earmarked for the EU not falling into the concession category are now on hold until new rules are drafted. Reports indicate that these new rulings might not be finalized until October. Traders outside of New Zealand are now speculating what will happen to these unshipped volumes. Some feel that these volumes will need to clear New Zealand warehouses soon as the 2006 - 2007 butter production season will begin entering warehouses. Outside of these potential surplus volumes, Oceania traders and handlers indicate that they will be basically cleaned out of product prior to new production. In most instances, handlers state that they will have minimal, if any, volumes of manufactured dairy products available for spot buyer interest. Powder stocks are in very close balance.

BUTTER: Oceania butter markets are generally steady with prices unchanged to slightly lower. Traders and handlers state that butter shipments are on schedule, except New Zealand volumes destined for the EU. Following the July 12 total suspension and subsequent concession by the EU Commission to allow about 20,000 MT of butter warehoused in the EU or in transit to enter the country, an unshipped volume of about 30,000 MT remain. This unshipped volume has international traders speculating on how it will be priced and clear New Zealand warehouses. Some feel that the U.S. may receive a significant portion of the unshipped volumes, but quota and above quota regulations could greatly impact this possibility.

82% BUTTERFAT: 1,500 - 1,750

CHEDDAR CHEESE: Cheese markets are generally steady with prices unchanged to lower on the top of the reported range. As with other manufactured dairy products, cheese production is on the verge of seasonal increases. Milk production is starting to increase in New Zealand, thus will cheese output. Sales negotiations are basically completed for the first portion of the production season with second half negotiations resuming in a month or so. A large percentage of first half production has been committed.

39% MAXIMUM MOISTURE: 2,500 - 2,700

SKIM MILK POWDER (SMP): Oceania skim milk powder markets are little changed from recent weeks, although prices have firmed slightly. Traders and handlers are attributing Oceania price increases to international firmness. Oceania handlers indicate that carryover stocks should be sufficient to maintain scheduled shipments for another month or so. Some of these needs are being filled from sources outside of the Oceania region. Many traders and handlers are optimistic about the upcoming milk production season, but are maintaining agreements with sources outside of the region for additional powder supplies if needed.

1.25% BUTTERFAT: 2,000 - 2,200

WHOLE MILK POWDER (WMP): Whole milk powder markets are steady to firm. Powder output remains seasonally low, although the new milk production season is just getting underway. Producers and handlers remain optimistic about the upcoming season. At this point, traders continue to fill orders from inventoried stock which is reported to be in close balance. Most indicate that they will not have any surplus product to dispose of prior to new production.

26% BUTTERFAT: 2,000 - 2,200

CHICAGO MERCANTILE EXCHANGE FUTURESSelected settling prices, (open interest), and volume 1/

Month	08/02	08/03	08/04	08/07	08/08	08/09	08/10	08/11	08/14	08/15
CME - CLASS III MILK FUTURES (Pit-Traded)										
JUL 06	10.94 (3402) 1	10.91 (3402) 3	10.92 (3385) 0							
AUG 06	11.05 (4519) 110	11.00 (4464) 97	10.96 (4445) 54	10.97 (4361) 99	10.96 (4401) 17	10.95 (4425) 64	10.94 (4427) 21	10.99 (4373) 86	11.00 (4380) 68	11.00 (4380) 22
SEP 06	12.13 (5126) 267	12.00 (5190) 239	11.92 (5208) 131	11.86 (5243) 60	11.88 (5247) 114	11.68 (5135) 380	11.76 (5171) 229	11.90 (5173) 226	11.85 (5173) 96	11.90 (5199) 77
OCT 06	12.70 (4301) 76	12.58 (4312) 74	12.55 (4333) 66	12.55 (4318) 74	12.57 (4322) 41	12.40 (4359) 77	12.46 (4394) 132	12.58 (4400) 66	12.52 (4395) 129	12.55 (4419) 72
NOV 06	12.75 (3541) 59	12.65 (3520) 29	12.64 (3531) 31	12.70 (3536) 63	12.73 (3533) 38	12.68 (3536) 33	12.71 (3546) 85	12.75 (3559) 37	12.65 (3577) 97	12.67 (3577) 32
DEC 06	12.74 (3100) 59	12.65 (3081) 35	12.65 (3084) 28	12.68 (3093) 43	12.73 (3104) 37	12.67 (3111) 34	12.73 (3115) 68	12.80 (3127) 46	12.71 (3131) 13	12.70 (3139) 33
JAN 07	12.72 (1277) 38	12.70 (1280) 19	12.70 (1292) 42	12.70 (1313) 32	12.72 (1323) 20	12.68 (1329) 13	12.73 (1347) 23	12.78 (1361) 24	12.70 (1369) 8	12.70 (1374) 11
FEB 07	12.57 (1044) 40	12.48 (1041) 11	12.43 (1045) 31	12.45 (1055) 24	12.49 (1077) 13	12.50 (1082) 6	12.50 (1082) 10	12.50 (1083) 10	12.44 (1089) 8	12.45 (1090) 5
MAR 07	12.55 (1140) 56	12.54 (1144) 16	12.45 (1135) 38	12.50 (1145) 34	12.35 (1145) 9	12.45 (1150) 7	12.45 (1151) 3	12.45 (1153) 5	12.40 (1159) 7	12.43 (1160) 4
APR 07	12.75 (816) 49	12.65 (813) 6	12.65 (814) 25	12.70 (826) 30	12.70 (833) 7	12.70 (838) 6	12.70 (843) 6	12.75 (844) 4	12.70 (846) 7	12.70 (848) 1
MAY 07	12.75 (804) 46	12.65 (782) 21	12.65 (791) 32	12.70 (802) 31	12.70 (809) 7	12.70 (814) 6	12.70 (818) 5	12.70 (818) 4	12.65 (819) 6	12.65 (821) 0
JUN 07	12.76 (740) 40	12.70 (740) 7	12.70 (739) 37	12.75 (742) 24	12.70 (749) 7	12.70 (753) 5	12.70 (757) 4	12.72 (759) 2	12.65 (762) 17	12.65 (765) 2
JUL 07	13.24 (557) 30	13.13 (557) 21	13.13 (562) 12	13.13 (576) 14	13.22 (577) 2	13.13 (581) 7	13.13 (581) 3	13.20 (582) 1	13.15 (589) 20	13.17 (592) 7
AUG 07	13.41 (509) 28	13.31 (510) 24	13.28 (510) 11	13.31 (518) 7	13.31 (518) 0	13.31 (520) 5	13.31 (522) 2	13.45 (524) 2	13.32 (533) 21	13.34 (532) 7
SEP 07	13.44 (494) 34	13.34 (494) 18	13.33 (494) 14	13.34 (497) 3	13.34 (497) 0	13.34 (499) 5	13.34 (502) 3	13.34 (503) 1	13.33 (509) 23	13.33 (510) 5
CME - CLASS IV MILK FUTURES (Pit-Traded)										
JUL 06	10.30 (11) 0	10.20 (11) 0	10.21 (11) 0							
AUG 06	10.92 (6) 0	10.90 (6) 0	10.90 (6) 0	10.90 (6) 0	10.90 (6) 0	10.90 (6) 0	10.90 (6) 0	10.90 (6) 0	10.90 (6) 0	10.90 (6) 0
SEP 06	11.18 (6) 0	11.18 (6) 0	11.18 (6) 0	11.18 (6) 0	11.18 (6) 0	11.18 (6) 0	11.18 (6) 0	11.18 (6) 0	11.18 (6) 0	11.18 (6) 0
CME – PRODUCT SETTLED BUTTER FUTURES (Pit-Traded)										
SEP 06	127.50 (354) 7	127.00 (353) 6	129.00 (352) 3	128.50 (352) 0	127.75 (350) 6	126.00 (348) 2	126.50 (348) 0	127.00 (343) 13	128.50 (337) 6	128.50 (337) 0
OCT 06	128.50 (238) 4	128.50 (239) 1	130.00 (239) 4	128.50 (235) 5	128.25 (235) 4	127.75 (235) 0	127.50 (235) 1	128.50 (235) 2	129.00 (236) 3	128.50 (238) 5
DEC 06	129.50 (40) 0	129.50 (40) 0	129.50 (40) 0	129.50 (41) 1	129.50 (41) 0	129.00 (40) 2	129.75 (40) 0	130.00 (40) 0	130.00 (40) 0	128.50 (42) 4
CME – CASH SETTLED BUTTER FUTURES (Electronic-Traded)										
JUL 06	113.10 (731) 0	111.00 (731) 0	113.40 (731) 0							
AUG 06	125.25 (910) 4	124.00 (891) 25	123.50 (891) 2	126.00 (883) 25	125.75 (854) 42	125.00 (847) 19	124.50 (841) 6	123.00 (835) 12	122.75 (835) 0	122.75 (829) 33
SEP 06	128.75 (992) 5	128.25 (988) 8	129.00 (986) 7	130.00 (986) 2	129.75 (977) 12	128.50 (978) 2	128.25 (980) 6	129.75 (986) 22	129.75 (980) 9	128.50 (980) 3

1/ At the CME open interest for milk -- 200,000 pounds per contract. For more detailed information, you may call our automated voice system at 608-250-3208.

AUGUST MILK SUPPLY AND DEMAND ESTIMATES*

The milk production forecast for 2006 is reduced from last month, but the 2007 forecast is unchanged. Recent unusually high temperatures in many milk producing regions have resulted in lower milk yield, and forecast milk per cow is reduced in the third quarter. In the face of lower supplies and relatively robust demand for dairy products, forecast Class III and Class IV prices, and the all milk are increased. Higher forecast prices for nonfat dry milk (NDM) are expected to reduce incentives to offer NDM to the CCC. Thus, CCC net removals are reduced for both 2006 and 2007. The all milk price for 2006 is increased to \$12.60-\$12.80, and 2007 is raised to \$12.90-\$13.90 per cwt.

U.S. MILK SUPPLY AND USE					
Commodity	2005	2006 Projected		2007 Projected	
		July	August	July	August
MILK		BILLION POUNDS			
PRODUCTION	177.0	182.1	181.3	183.1	183.1
FARM USE	1.1	1.1	1.1	1.0	1.0
FAT BASIS SUPPLY					
BEGINNING COMMERCIAL STOCKS	7.2	8.0	8.0	8.2	8.2
MARKETINGS	175.9	181.0	180.3	182.1	182.1
IMPORTS	4.6	4.4	4.4	5.1	5.1
TOTAL COMMERCIAL SUPPLY	187.7	193.4	192.7	195.4	195.4
FAT BASIS USE					
ENDING COMMERCIAL STOCKS	8.0	8.2	8.2	7.9	7.9
CCC NET REMOVALS <u>1/</u>	-0.0	0.0	0.0	0.0	0.0
COMMERCIAL USE <u>2/</u>	179.7	185.2	184.5	187.5	187.5
SKIM-SOLIDS BASIS SUPPLY					
BEGINNING COMMERCIAL STOCKS	8.2	9.0	9.0	9.0	8.4
MARKETINGS	175.9	181.0	180.3	182.1	182.1
IMPORTS	4.5	4.7	4.7	5.7	5.7
TOTAL COMMERCIAL SUPPLY	188.6	194.6	193.9	196.8	196.2
SKIM-SOLIDS BASIS USE					
ENDING COMMERCIAL STOCKS	9.0	9.0	8.4	8.8	8.8
CCC NET REMOVALS <u>1/</u>	-1.0	1.2	0.9	2.3	1.5
COMMERCIAL USE <u>2/</u>	180.6	184.4	184.6	185.7	185.9
CCC PRODUCT NET REMOVALS <u>1/</u>		MILLION POUNDS			
BUTTER	0	0	0	0	0
CHEESE	-2	0	0	0	0
NONFAT DRY MILK	-81	105	75	195	130
DRY WHOLE MILK	0	0	0	0	0

NOTE: Totals may not add due to rounding. 1/ Includes products exported under the Dairy Export Incentive Program. 2/ Includes commercial exports.

Continued on page 11

AUGUST MILK SUPPLY AND DEMAND ESTIMATES-cont'd

U.S. DAIRY PRICES						
Commodity	2005	2006 Projected		2007 Projected		
		July	August	July	August	
PRODUCT PRICES <u>1/</u> CHEESE	DOLLARS PER POUND					
	1.4875	1.215-1.245	1.220-1.240	1.295-1.395	1.295-1.395	
	BUTTER	1.5405	1.155-1.215	1.210-1.250	1.215-1.345	1.220-1.350
	NONFAT DRY MILK	0.9409	0.840-0.870	0.855-0.875	0.815-0.885	0.815-0.885
DRY WHEY	0.2782	0.295-0.315	0.295-0.315	0.245-0.275	0.250-0.280	
MILK PRICES <u>2/</u> CLASS III	DOLLARS PER CWT					
	14.05	11.40-11.70	11.50-11.70	11.95-12.95	12.00-13.00	
	CLASS IV	12.87	10.45-10.85	10.75-11.05	10.45-11.55	10.45-11.55
	ALL MILK <u>3/</u>	15.14	12.50-12.80	12.60-12.80	12.85-13.85	12.90-13.90
MILK PRODUCTION	QUARTERLY					
	2006 II	2006 III <u>4/</u>	2006 IV <u>4/</u>	2007 I <u>4/</u>	2007 II <u>4/</u>	
	BILLION POUNDS					
	46.9	44.2	44.6	46.3	47.3	
ALL MILK PRICE <u>2/</u> <u>3/</u> CLASS III PRICE <u>2/</u> CLASS IV PRICE <u>2/</u>	DOLLARS PER CWT.					
	12.00	12.05-12.35	12.80-13.40	12.50-13.40	12.45-13.45	
	11.02	11.10-11.40	11.55-12.15	11.45-12.35	11.85-12.85	
	10.30	10.70-11.10	10.75-11.45	10.30-11.30	10.55-11.65	

1/ Simple average of monthly prices calculated by AMS from NASS weekly average dairy product prices for class price computations. Details may be found at http://www.ams.usda.gov/dyfmomib/fedordprc_dscrpt.htm. 2/ Annual and quarterly Class III and Class IV prices are the simple average of monthly minimum Federal order milk prices paid by regulated plants for milk used in the respective classes. All milk price is the simple average of monthly prices received by farmers for milk at average test. 3/ Does not reflect any deductions from producers as authorized by legislation. 4/ Projection.

* The World Agricultural Supply and Demand Estimates were approved by the Interagency Commodity Estimates Committee. The members for Dairy are: Shayle Shagam, Chairperson, WAOB; Howard McDowell, AMS; Paul Kiendl, FAS; Roger Hoskin, ERS; and Milton Madison, FSA.

SOURCE: "World Agricultural Supply and Demand Estimates," WASDE-437, World Agricultural Outlook Board, USDA, August 11, 2006.

FEDERAL MILK ORDER PRICE AND POOL SUMMARY, JULY

HIGHLIGHTS. Handler reports of receipts and utilization under the Federal milk order system for July have been filed and tabulated. Combined totals for the 10 consolidated orders are being released. During July, about 10.4 billion pounds of milk were received from producers. This volume of milk is 2.9 percent higher than the July 2005 volume. About 3.5 billion pounds of producer milk were used in Class I products, 1.5 percent higher than the previous year. Calendar composition likely had a slightly negative impact on milk used in Class I in 2006 as compared to 2005. The all-market average Class utilization percentages were; Class I = 34%, Class II = 13%, Class III = 42%, and Class IV = 11%. The weighted average statistical uniform price was \$12.07 per cwt., \$0.01 lower than last month and \$3.19 lower than last year.

PRICE AND POOL STATISTICS FOR FEDERAL MILK ORDER MARKETING AREAS FOR THE MONTH OF JULY 2006										
FEDERAL MILK ORDER MARKETING AREA <u>1/</u>	ORDER NUMBER	RECEIPTS OF PRODUCER MILK		UTILIZATION OF PRODUCER MILK IN CLASS I			UTILIZATION OF PRODUCER MILK IN OTHER CLASSES			UNIFORM PRICE <u>2/</u>
		TOTAL	CHANGE FROM PREV. YEAR	TOTAL	CHANGE FROM PREV. YEAR	PERCENT	CLASS II	CLASS III	CLASS IV	
		MIL. LBS.	PERCENT	MIL. LBS.	PERCENT		PERCENT			\$ PER CWT.
Northeast (Boston)	001	1,906.3	-4.1	814.9	0.1	43	20	24	13	12.79
Appalachian (Charlotte)	005	489.7	-2.8	324.7	-2.4	66	17	5	12	13.33
Southeast (Atlanta)	007	602.8	2.5	374.4	3.1	62	13	16	9	13.28
Florida (Tampa)	006	244.3	-1.9	207.3	2.0	85	8	2	5	14.65
Mideast (Cleveland)	033	1,501.7	-9.3	499.9	0.6	33	18	40	9	11.74
Upper Midwest (Chicago)	030 <u>3/</u>	2,298.1	14.2	345.9	2.2	15	6	77	2	11.30
Central (Kansas City)	032	1,313.7	1.6	331.4	-0.3	25	12	52	11	11.53
Southwest (Dallas)	126 <u>3/</u>	1,050.7	17.7	322.4	0.8	31	13	40	16	12.32
Arizona (Phoenix)	131 <u>4/</u>	276.3	14.3	104.7	34.8	38	9	35	18	11.85
Pacific Northwest (Seattle)	124	707.2	5.1	171.4	3.1	24	6	32	38	11.29
ALL MARKET AVERAGE OR TOTAL	<u>3/</u>	10,390.9	2.9	3,497.0	1.5	34	13	42	11	12.07

1/ Names in parentheses are the major city in the principal pricing point of the market.

2/ Statistical uniform price for component pricing orders (Class III price plus producer price differential). For other orders, uniform skim milk price times 0.965 plus uniform butterfat price times 3.5.

3/ Due to a disadvantage relationship between intraorder class prices and the location adjusted statistical uniform (blend) price in these markets, handlers elected not to pool an administratively confidential volume of milk that normally would have been associated with these markets. In July 2005, the estimated not pooled volume of milk was 90 million pounds, occurring in Order Nos. 030, 032, and 126. After adjusting for these not pooled volumes, the year to year percent change is +2.1%.

4/ Effective May 1, 2006, the name of the Federal order was changed. Clark County, Nevada, which includes Las Vegas, was removed from the marketing area.

JULY MILK PRODUCTION

Milk production in the 23 major States during July totaled 13.9 billion pounds, up 1.5 percent from July 2005. June revised production, at 14 billion pounds, was up 1.9 percent from June 2005. The June revision represented an increase of 6 million pounds from last month's preliminary production estimate.

Production per cow in the 23 major States averaged 1,686 pounds for July, 3 pounds above July 2005.

The number of cows on farms in the 23 major States was 8.26 million head, 107,000 head more than July 2005, but 11,000 head less than June 2006.

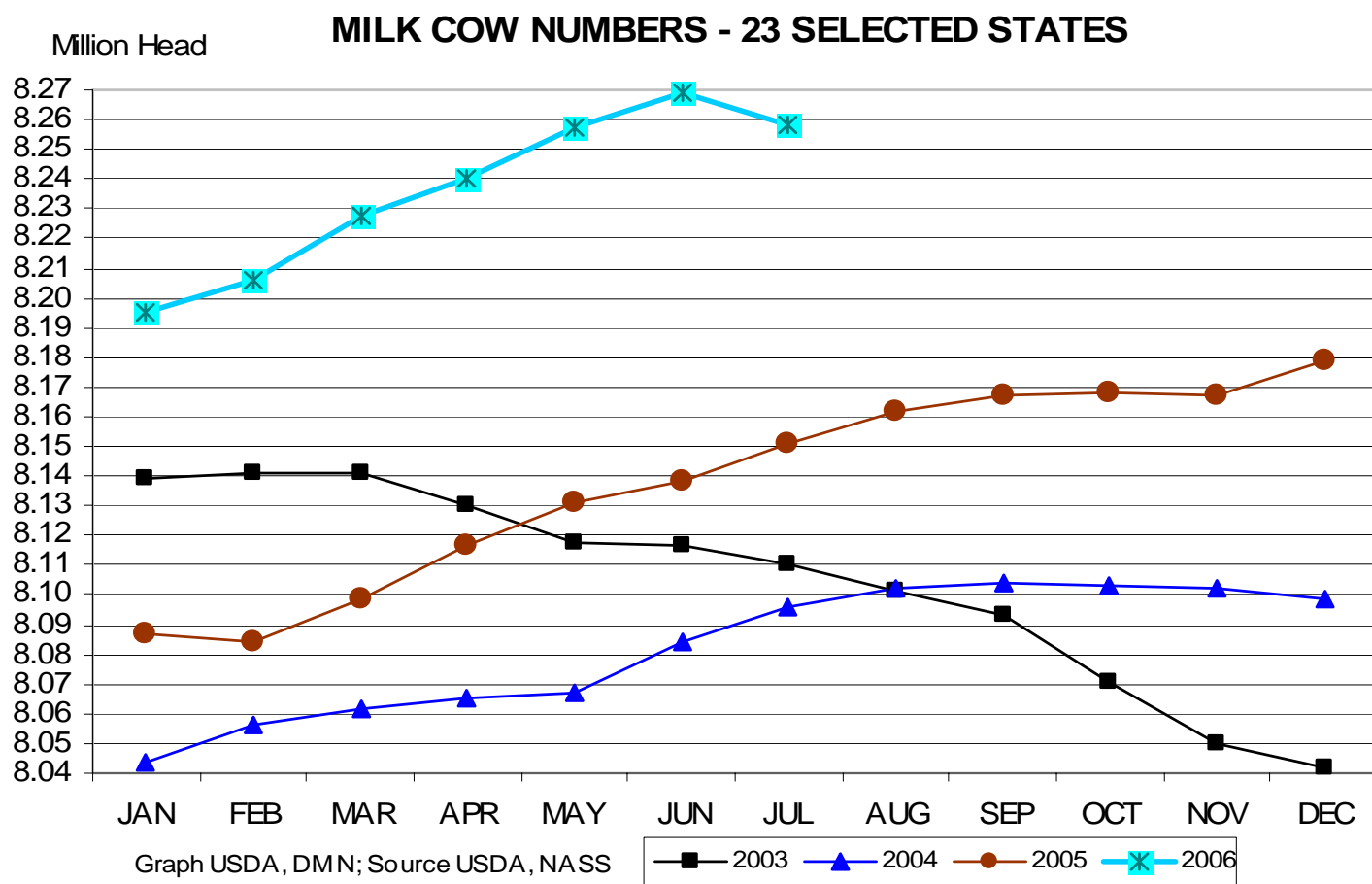
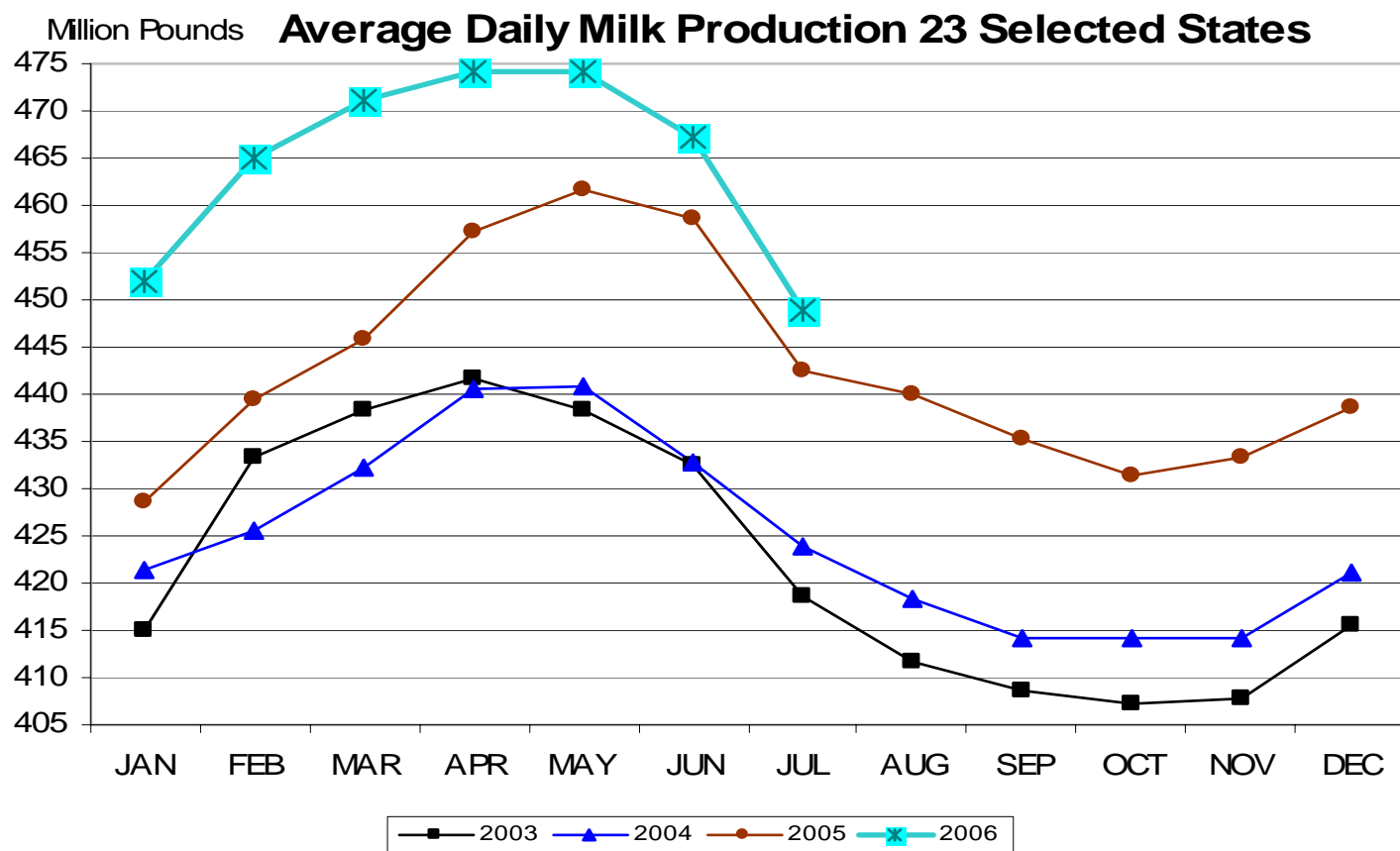
JULY 2006 MILK COWS AND MILK PRODUCTION, BY STATES

STATE	MILK COWS 1/		MILK PER COW 2/		MILK PRODUCTION 2/		
	2005	2006	2005	2006	2005	2006	% CHANGE FROM 2005
	THOUSANDS		POUNDS		MILLION POUNDS		PERCENT
AZ	162	170	1,865	1,805	302	307	1.7
CA	1,756	1,771	1,780	1,760	3,126	3,117	-0.3
CO	105	112	1,960	1,960	206	220	6.8
FL	136	131	1,315	1,330	179	174	-2.8
ID	460	490	1,960	1,960	902	960	6.4
IL	104	103	1,580	1,600	164	165	0.6
IN	156	166	1,700	1,670	265	277	4.5
IA	193	200	1,720	1,690	332	338	1.8
KS	112	113	1,695	1,650	190	186	-2.1
KY	106	97	1,065	1,060	113	103	-8.8
MI	313	321	1,850	1,875	579	602	4.0
MN	455	450	1,510	1,565	687	704	2.5
MO	117	115	1,360	1,270	159	146	-8.2
NM	328	362	1,845	1,880	605	681	12.6
NY	647	647	1,600	1,605	1,035	1,038	0.3
OH	270	274	1,480	1,510	400	414	3.5
OR	121	121	1,640	1,580	198	191	-3.5
PA	561	555	1,590	1,600	892	888	-0.4
TX	320	335	1,710	1,760	547	590	7.9
VT	143	141	1,565	1,540	224	217	-3.1
VA	105	103	1,390	1,415	146	146	---
WA	245	237	1,985	1,960	486	465	-4.3
WI	1,236	1,244	1,600	1,600	1,978	1,990	0.6
23 STATE TOTAL	8,151	8,258	1,683	1,686	13,715	13,919	1.5

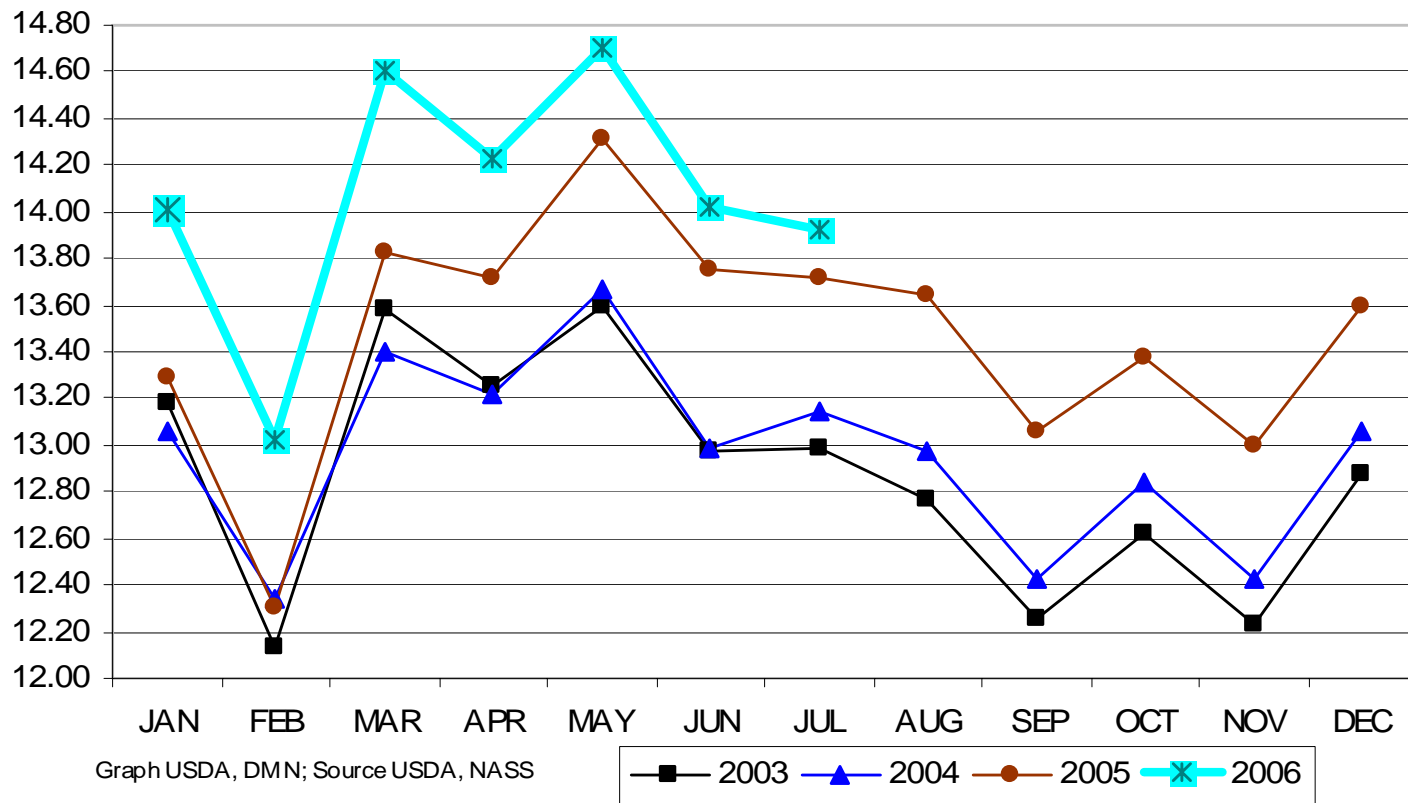
1/ Includes dry cows. Excludes heifers not yet fresh.

2/ Excludes milk sucked by calves.

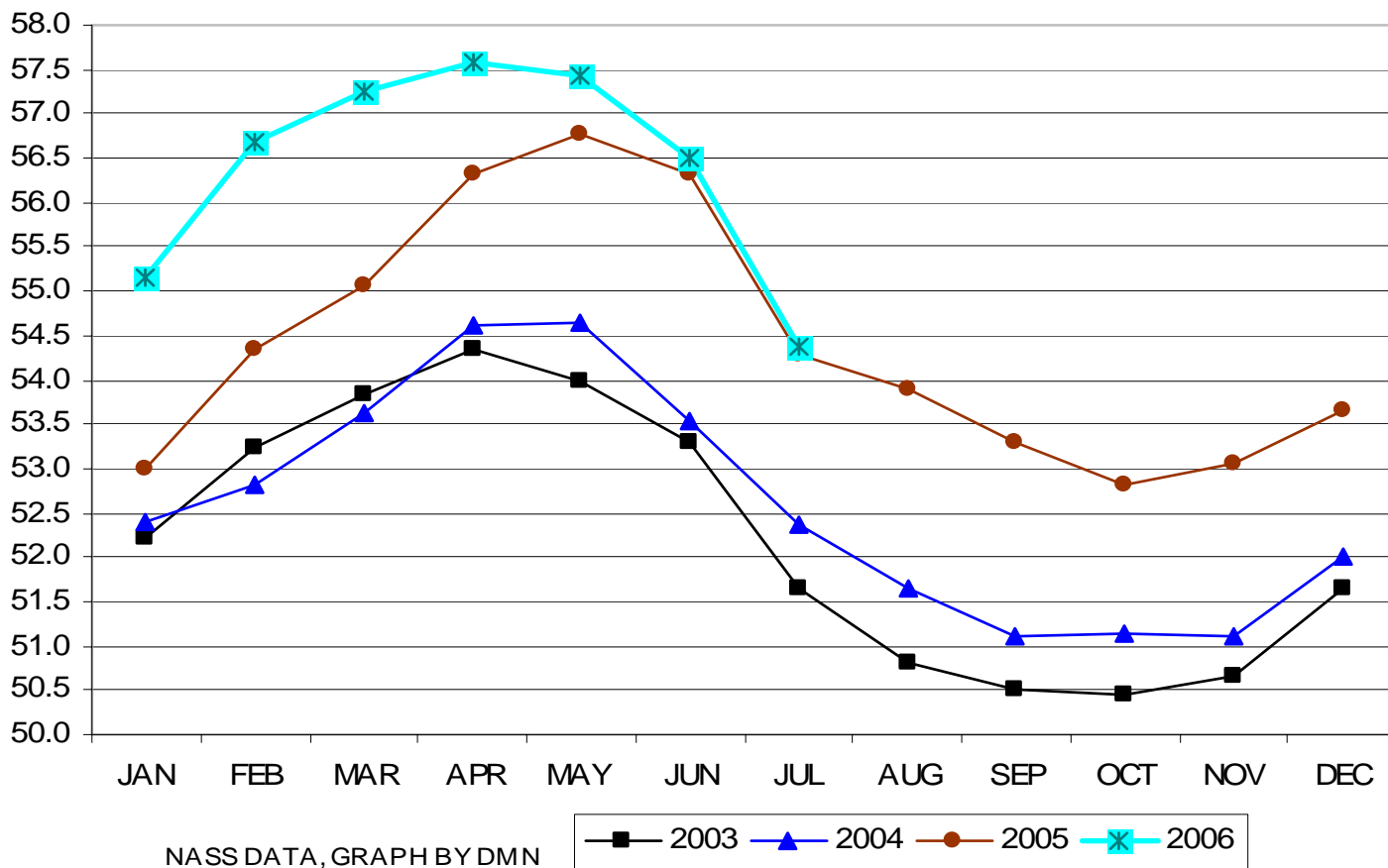
SOURCE: "Milk Production," Da 1-1 (8-06), Agricultural Statistics Board, National Agricultural Statistics Service, U.S. Department of Agriculture.



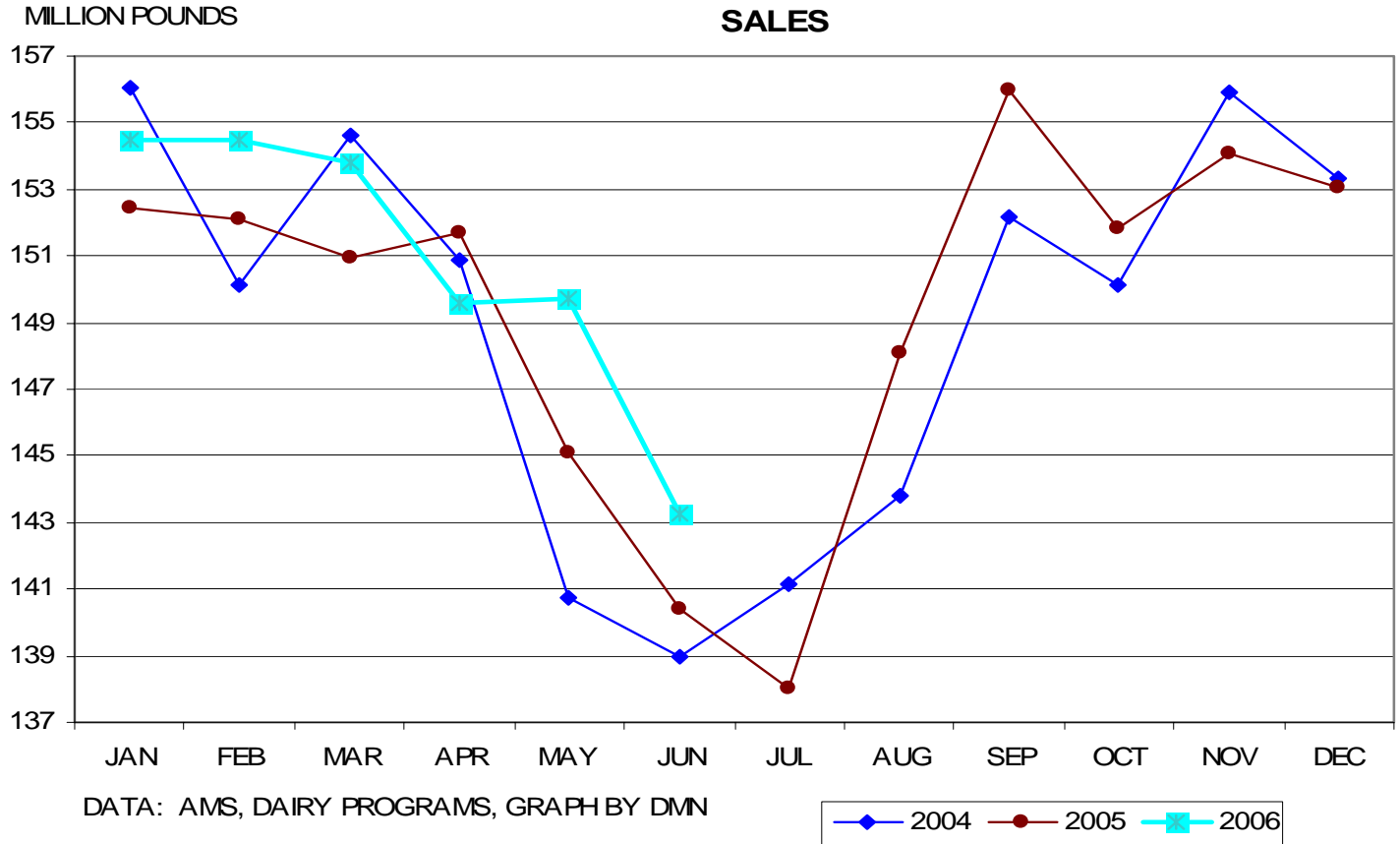
Billion Pounds

MILK PRODUCTION - 23 SELECTED STATES

Pounds per Day

23 STATES DAILY AVERAGE MILK OUTPUT PER COW

ESTIMATED DAILY AVERAGE U.S. PACKAGED FLUID PRODUCT SALES



U.S. Annual Per Capita Cheese Consumption Since 1990

